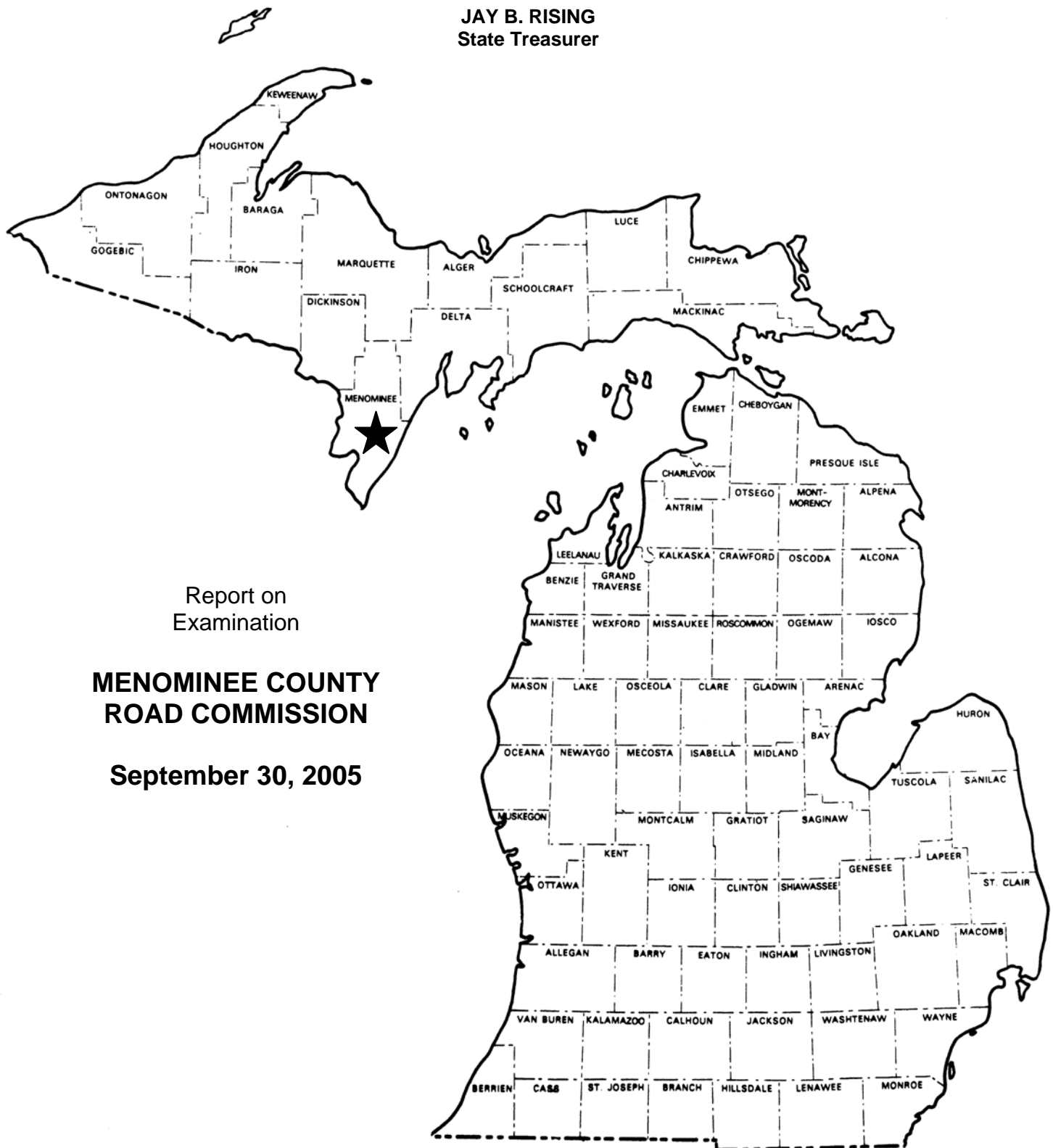


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**MENOMINEE COUNTY
ROAD COMMISSION**

September 30, 2005

Local Audit and Finance Division
Bureau of Local Government Services

MENOMINEE COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Roger Betzinger
Chairperson

William Anderson
Vice Chairperson

Judy A. Nerat
Member

Darrell W. Moilanen, P.E.
Engineer/Manager

Sandra J. Miller
Clerk/Office Manager

COUNTY POPULATION--2000
25,326

STATE EQUALIZED VALUATION--2005
\$733,494,120



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

January 11, 2006

Board of County Road Commissioners
Menominee County
P.O. Box 527
Stephenson, Michigan 49887

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Menominee County Road Commission, a component unit of Menominee County, Michigan, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Menominee County Road Commission as of September 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2006 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Menominee County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits K through M is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards (Schedule 1) is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MENOMINEE COUNTY ROAD COMMISSION

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MENOMINEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Menominee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2005. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

MENOMINEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report of the Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

This is the second year of implementation for GASB No. 34 and as such a comparative analysis between years has been presented. The Road Commission's net assets increased approximately 2.29% or \$693,645 from \$30,340,231 to \$31,033,876 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

The Capital assets increased more than the depreciation and there was a gain on loss of equipment in the amount of \$156,825.

MENOMINEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of the year ended September 30, 2005 are as follows:

	Governmental Activities 09/30/04	Governmental Activities 09/30/05	Variance	Percentage
Current and Other Assets	\$ 2,963,605	\$ 3,423,849	\$460,244	15.53%
Net Capital Assets	<u>28,215,167</u>	<u>28,696,885</u>	<u>481,718</u>	<u>1.71%</u>
Total Assets	<u>31,178,772</u>	<u>32,120,734</u>	<u>941,962</u>	<u>3.02%</u>
Current Liabilities	339,440	528,438	188,998	35.77%
Noncurrent Liabilities	<u>499,101</u>	<u>558,420</u>	<u>59,319</u>	<u>10.62%</u>
Total Liabilities	<u>838,541</u>	<u>1,086,858</u>	<u>248,317</u>	<u>29.61%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	28,215,167	28,696,885	481,718	1.71%
Restricted	<u>2,125,064</u>	<u>2,336,991</u>	<u>211,927</u>	<u>9.97%</u>
Total Net Assets	<u>\$30,340,231</u>	<u>\$31,033,876</u>	<u>\$693,645</u>	<u>2.29%</u>

MENOMINEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents a two year comparison of the Statement of Activities:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Licenses and Permits	\$ 6,350	\$ 6,575	\$ 225	3.42%
Federal Grants	1,387,996	906,187	(481,809)	-53.17%
State Grants	4,091,683	4,152,261	60,578	1.46%
Contributions From Local Units	468,769	279,104	(189,665)	-67.95%
Charges for Services	905,975	833,525	(72,450)	-8.69%
Investment Earnings	20,212	41,570	21,358	51.38%
General Revenue				
Gain on Equipment Disposal	(230)	156,825	157,055	100.15%
Total Revenue	<u>6,880,755</u>	<u>6,376,047</u>	<u>(504,708)</u>	<u>-7.92%</u>
Expenses				
Primary Road Maintenance	1,397,182	1,195,217	(201,965)	-14.46%
Local Road Maintenance	1,202,426	1,121,450	(80,976)	-6.73%
State Trunkline Maintenance	765,410	698,021	(67,389)	-8.80%
Private Driveway Plowing	4,864	1,041	(3,823)	-78.60%
Net Equipment Expense	23,858	133,685	109,827	460.34%
Net Administrative Expense	380,053	337,578	(42,475)	-11.18%
Maintenance for Other Units	199,293	49,995	(149,298)	-74.91%
Infrastructure Depreciation Expense	6,768	2,142,253	2,135,485	-100.00%
Compensated Absences	332	3,164	2,832	853.01%
Total Expenses	<u>3,980,186</u>	<u>5,682,404</u>	<u>1,702,218</u>	<u>42.77%</u>
Increase in Net Assets	<u>\$2,900,569</u>	<u>\$ 693,643</u>	<u>\$ (2,206,926)</u>	<u>-76.09%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2005, the fund balance of the General Operations Fund increased \$215,091 as compared to a decrease of \$31,790 in the fund balance for the fiscal year ended September 30, 2004. Total operating revenues were \$6,376,047, a decrease of \$504,708 as compared to last year. This change in revenues resulted from a decrease in the number of Federal, State and local projects for the year.

Total expenditures were \$6,160,956 a decrease of \$751,589 in comparison to last year. This change in expenditures is primarily the result of a decrease in the number of Federal, State and local projects for the year.

MENOMINEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Revenues				
Licenses and Permits	\$ 6,350	\$ 6,575	\$ 225	3.54%
Federal Grants	1,387,996	906,187	(481,809)	-34.71%
State Grants	4,091,683	4,152,261	60,578	1.48%
Contributions From Local Units	468,769	279,104	(189,665)	-40.46%
Charges for Services	877,925	736,525	(141,400)	-16.11%
Interest and Rents	20,212	41,570	21,358	105.67%
Other Revenue	<u>27,820</u>	<u>253,825</u>	<u>226,005</u>	<u>812.38%</u>
Total Revenues	<u>6,880,755</u>	<u>6,376,047</u>	<u>(504,708)</u>	<u>-7.34%</u>
Expenditures				
Public Works	7,447,448	6,293,920	(1,153,528)	-15.49%
Capital Outlay--Net	(536,530)	(132,964)	403,566	-75.22%
Debt Service	<u>1,627</u>		<u>(1,627)</u>	<u>-100.00%</u>
Total Expenditures	<u>6,912,545</u>	<u>6,160,956</u>	<u>(751,589)</u>	<u>-10.87%</u>
Excess of Expenditures Over Revenues	(31,790)	215,091	246,881	776.60%
Fund Balance--Beginning	<u>2,440,927</u>	<u>2,409,137</u>	<u>(31,790)</u>	<u>-1.30%</u>
Fund Balance--Ending	<u><u>\$2,409,137</u></u>	<u><u>\$2,624,228</u></u>	<u><u>\$ 215,091</u></u>	<u><u>8.93%</u></u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2005 was \$5,813,695, which was \$562,352 less than the actual revenue received for the year. This was due, in large part, to the Road Commission receiving more funds from certain Federal, State and local projects during the year than originally planned.

The Road Commission's original expenditure budget was projected at \$5,813,695, while actual expenditures were \$6,160,956 resulting in actual expenditures being more than budgeted by \$347,261. This was primarily due to the Road Commission having more costs associated with maintenance and projects on the Local and Primary County road system.

MENOMINEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2005, the Road Commission had \$28,696,885 invested in capital assets as follows:

	<u>09/30/04</u>	<u>09/30/05</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	<u>\$ 18,100</u>	<u>\$ 18,100</u>	<u>0.00%</u>
Subtotal	<u>18,100</u>	<u>18,100</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Buildings	1,104,470	1,104,470	0.00%
Road Equipment	6,753,824	6,852,737	1.44%
Shop Equipment	168,424	171,258	1.65%
Fuel Distribution Equipment	122,693	122,693	0.00%
Office Equipment	103,143	100,077	-3.06%
Engineer's Equipment	107,255	107,469	0.20%
Infrastructure--Bridges	7,364,109	7,421,396	0.77%
Infrastructure--Roads	<u>35,710,991</u>	<u>38,410,637</u>	<u>7.03%</u>
Subtotal	<u>51,434,909</u>	<u>54,290,737</u>	<u>5.26%</u>
Total Capital Assets	51,453,009	54,308,837	5.26%
Total Accumulated Depreciation	<u>(23,237,840)</u>	<u>(25,611,952)</u>	<u>9.27%</u>
Total Net Capital Assets	<u>\$28,215,169</u>	<u>\$28,696,885</u>	<u>1.68%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,756,933. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission has, as of this year, retroactively reported infrastructure assets (assets acquired after 1980) in a subsequent year as required by GASB No. 34.

MENOMINEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$ 121,371
Various Resurfacing Projects and Related Land/Right-of-Way	2,635,562
Road Equipment	537,580
Other Various Equipment	<u>10,802</u>
Total Additions	<u><u>\$3,305,315</u></u>

There were no new installment purchase agreements entered into during 2005; all the equipment was acquired with Road Commission funds.

Debt

At the year end, the Road Commission had no installment agreement purchases.

More detailed information about the Road Commission's long-term liabilities for vested employee benefits is presented in Note G to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 55% of its revenue from the fuel tax collected in 2005. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 4.2% of its revenues from township contributions during 2005. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2006, we expect to receive \$1,132,990 in Federal and State aid for road projects, some of which was deferred from 2005.

The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the 2006 budget are \$6,163,855.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Menominee County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Menominee County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Menominee County administrative offices at: P.O. Box 527, Stephenson, MI, 49887.

MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

ASSETS

Cash	\$ 675,422
Investments	1,147,287
Accounts Receivable	
State--Trunkline Maintenance	17,679
State--Trunkline Non-Maintenance	125,105
Michigan Transportation Fund	589,277
Due From Other Units of Government	10,400
Due on County Road Agreements	269,763
Sundry Accounts	183
Inventories	
Road Materials	415,220
Equipment Parts and Materials	173,513
Capital Assets (Net of Accumulated Depreciation)	<u>28,696,885</u>
Total Assets	<u>32,120,734</u>

LIABILITIES

Current Liabilities	
Accounts Payable	439,912
Due to State of Michigan	3,175
Accrued Liabilities	73,856
Permit Fees	1,375
Driveway Snow Plowing Deposits	10,120
Noncurrent Liabilities	
Advance From State	180,372
Advance From Townships	90,811
Vested Employee Benefits Payable	<u>287,237</u>
Total Liabilities	<u>1,086,858</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	28,696,885
Restricted for County Roads	<u>2,336,991</u>
Total Net Assets	<u>\$31,033,876</u>

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005**

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,195,217
Local Road Maintenance	1,121,450
State Trunkline Maintenance	698,021
Private Driveway Plowing	1,041
Net Equipment Expense	133,685
Net Administrative Expense	337,578
Maintenance for Other Units	49,995
Infrastructure Depreciation	2,142,253
Compensated Absences	<u>3,164</u>
Total Program Expenses	<u>5,682,404</u>
Program Revenue	
Charges for Services	
License and Permits	6,575
Charges for Services	833,525
Operating Grants and Contributions	
Michigan Transportation Funds	3,501,744
Investment Earnings	41,570
Capital Grants and Contributions	
Federal Grants	906,187
State Grants	650,517
Contributions	<u>279,104</u>
Total Program Revenue	<u>6,219,222</u>
Net Program Revenue	<u>536,818</u>
General Revenue	
Gain on Equipment Disposal	<u>156,825</u>
Total General Revenues and Transfers In	<u>156,825</u>
Change in Net Assets	<u>693,643</u>
Net Assets	
Beginning of Year	7,481,521
Restatement to Net Assets (See Note F)	<u>22,858,712</u>
Restated Net Assets--Beginning of Year	<u>30,340,233</u>
End of Year	<u><u>\$ 31,033,876</u></u>

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2005**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Cash	\$ 675,422
Investments	1,147,287
Accounts Receivable	
State Trunkline Maintenance	17,679
State Trunkline Maintenance	125,105
Michigan Transportation Fund	589,277
Due From Other Governmental Units	10,400
Sundry Accounts	183
Due on County Road Agreements	269,763
Inventories	
Road Materials	415,220
Equipment Parts and Materials	173,513
Total Assets	<u><u>\$ 3,423,849</u></u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 439,912
Accrued Liabilities	73,856
Advances	
Townships	90,811
Permit Fees	1,375
Private Driveway Plowing	10,120
State Trunkline Equipment Purchase	126,558
State Trunkline Maintenance	53,814
Total Liabilities	<u>799,621</u>
Fund Equities	
Fund Balance	
Reserved for	
Inventory	588,733
Long-Term Receivables	259,801
Unreserved and Undesignated	1,775,694
Total Fund Equities	<u>2,624,228</u>
Total Liabilities and Fund Equities	<u><u>\$ 3,423,849</u></u>

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$ 2,624,228
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	28,696,885
--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(287,237)</u>
---	------------------

Net Assets of Governmental Activities	<u><u>\$ 31,033,876</u></u>
---------------------------------------	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2005**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 6,575
Federal Grants	906,187
State Grants	4,152,261
Contributions From Local Units	279,104
Charges for Services	736,525
Interest and Rents	41,570
Other Revenue	<u>253,825</u>
Total Revenues	<u>6,376,047</u>
Expenditures	
Public Works	6,293,920
Capital Outlay--Net	<u>(132,964)</u>
Total Expenditures	<u>6,160,956</u>
Excess of Revenues Over (Under) Expenditures	215,091
Fund Balance--October 1, 2004	<u>2,409,137</u>
Fund Balance--September 30, 2005	<u><u>\$ 2,624,228</u></u>

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$215,091

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

481,716

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)

(3,164)

Change in Net Assets of Governmental Activities

\$ 693,643

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
FIDUCIARY FUND--STATEMENT OF NET ASSETS
For the Fiscal Year Ended September 30, 2004
(Most Current Information Available)**

EXHIBIT G

	Pension Trust
<u>ASSETS</u>	
Investments at Fair Market Value	
American Express Simplified Plan	\$ 477,691
Total Assets	477,691
<u>LIABILITIES</u>	
Total Liabilities	-
<u>NET ASSETS</u>	
Held in Trust for Pension Benefits	\$ 477,691

The Notes to Financial Statements are an integral part of this statement.

**MENOMINEE COUNTY ROAD COMMISSION
STATEMENT OF CHANGES IN NET ASSETS
PROFIT SHARING PLAN
For the Fiscal Year Ended September 30, 2004
(Most Current Information Available)**

EXHIBIT H

ADDITIONS

Contributions	
Employer Contributions	<u>\$ 121,356</u>
Total Contributions	<u>121,356</u>
Investment Earnings	
Capital Gain (Loss)	<u>43,601</u>
Total Investment Earnings	<u>43,601</u>
Net Investment Earnings	<u>43,601</u>
Total Additions	<u>164,957</u>

DEDUCTIONS

Benefits Paid to Participants and Beneficiaries	<u>(44,234)</u>
Total Deductions	<u>(44,234)</u>

CHANGES IN NET ASSETS 120,723

Net Assets Held in Trust for Profit Sharing Plan	
Beginning of Year	<u>356,968</u>
End of Year	<u>\$ 477,691</u>

The Notes to Financial Statements are an integral part of this statement.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Menominee County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners, and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Menominee County Road Commission, a discretely presented component unit of Menominee County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Menominee County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Menominee County Road Commission as assets with an initial individual cost of more \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate unused sick and vacation pay benefits. There is a policy to pay 50% of the employee's unpaid accumulated sick leave up to 120 hours when employees separate from service with the government. All vacation pay and sick leave payable is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Profit Sharing Plan Trust Fund

The profit sharing plan trust fund is accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases and decreases in net total assets. This fund follows the accrual basis of accounting. Revenues are recorded when they are measurable and earned, and expenditures when the related liability is incurred.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. Also, the board has authorized the chief administrative officer to amend the Road Commission's budget when necessary, by transferring up to 20% from one line item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The Road Commission has designated four banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Operating Fund</u>	<u>Pension Trust</u>	<u>Total</u>
Cash	\$ 675,422		\$ 675,422
Investments	<u>1,147,287</u>	<u>\$477,691</u>	<u>1,624,978</u>
Total	<u><u>\$1,822,709</u></u>	<u><u>\$477,691</u></u>	<u><u>\$2,300,400</u></u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 675,272
Investments in Money Market and Government Operating Money Market	1,624,978
Petty Cash and Cash on Hand	<u>150</u>
Total	<u><u>\$2,300,400</u></u>

The bank balance of the primary government's deposits is \$727,549, of which \$400,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

As of September 30, 2005, the road commission had the following investments:

	Reported Amount (Fair Value)
Investments	
Government Portfolio Class II Mutual Funds	\$1,147,287
American Express Financial Simplified Plan	<u>477,691</u>
Total Primary Government	<u><u>\$1,624,978</u></u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--RESERVE FOR LONG-TERM RECEIVABLES

An estimated \$259,801 of the amount recorded as "Due on County Road Agreements" is not expected to be received within 60 days and, accordingly, is reserved from the fund balance available for current operations.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Notes	Account Balances 09/30/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated					
Land and Improvements		\$ 18,100			\$ 18,100
Subtotal		18,100	\$ -	\$ -	18,100
Capital Assets Being Depreciated					
Buildings		1,104,470			1,104,470
Road Equipment		6,753,824	537,580	438,667	6,852,737
Shop Equipment		168,424	3,521	687	171,258
Fuel Distribution Equipment		122,693			122,693
Office Equipment		103,143	6,177	9,243	100,077
Engineers' Equipment		107,255	1,104	890	107,469
Infrastructure--Bridges	2	7,364,109	121,371	(64,084)	7,549,564
Infrastructure--Roads	1	35,710,991	2,635,562	64,084	38,282,469
Total		51,434,909	3,305,315	449,487	54,290,737
Less Accumulated Depreciation					
Buildings		460,203	25,820		486,023
Road Equipment		5,658,727	439,267	256,518	5,841,476
Shop Equipment		141,367	11,964	603	152,728
Fuel Distribution Equipment		85,738	12,269		98,007
Office Equipment		57,183	11,278	9,243	59,218
Engineers' Equipment		92,595	4,659	267	96,987
Infrastructure--Bridges	2	1,930,534	156,685		2,087,219
Infrastructure--Roads	1	14,811,493	1,978,801		16,790,294
Total		23,237,840	2,640,743	266,631	25,611,952
Net Capital Assets Being Depreciated		28,197,069	3,305,315	2,823,599	28,678,785
Total Net Capital Assets		\$ 28,215,169	\$ 3,305,315	\$ 2,823,599	\$ 28,696,885

Beginning Net Capital Asset Restatement

Notes 1 and 2: The beginning balances include the increased balances for the infrastructure line-items due to the Road Commission recording the 20 years of infrastructure as recommended by Governmental Accounting Standards Statement No. 34 (GASB 34). Listed below is a summary of the road and bridge infrastructure.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Beginning Net Capital Assets		<u>\$ 5,356,457</u>
Notes		
1) Retroactive Recording of Roads		
Addition to Bridge Capital Assets	\$ 33,047,572	
Less: Accumulated Depreciation	<u>(14,811,493)</u>	18,236,079
2) Retroactive Recording of Bridges		
Addition to Bridge Capital Assets	6,553,167	
Less: Accumulated Depreciation	<u>(1,930,534)</u>	4,622,633
Total Prior Period Adjustments		<u>22,858,712</u>
Restated Net Capital Assets at September 30, 2004		<u><u>\$ 28,215,169</u></u>

- 3) The reclassification of \$64,084 from Infrastructure--Bridges to Infrastructure--Roads is to reclassify preservation done on structures less than the 20 foot span that were classified to bridges.

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 439,267
Indirect Equipment	51,500
Net Administrative Expenses	14,490
Infrastructure Depreciation Expense	<u>2,135,486</u>
Total Depreciation Expense	<u><u>\$2,640,743</u></u>

NOTE G--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	Balances 09/30/04	Additions (Reductions)	Balances 09/30/05
Employee Benefits Payable			
Vacation Benefits	\$160,513	\$ 726	\$161,239
Sick Leave Benefits	<u>123,560</u>	<u>2,438</u>	<u>125,998</u>
Total	<u><u>\$284,073</u></u>	<u><u>\$ 3,164</u></u>	<u><u>\$287,237</u></u>

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Vacation Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Road Commission policy provides that the vacation benefits earned in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefits

Effective January 1, 2005, each regular full-time employee receives 56 hours of sick leave. There is no limitation on the accumulation of unused sick leave time. Upon retirement or voluntary termination with 20 years of service and proper notice, employees who were hired before September 1, 1982 shall be paid 100% of their accumulated unused sick leave, up to a maximum of 480 hours. Employees hired after September 1, 1982, shall be paid 50% of their accumulated sick leave, up to a maximum of 120 hours.

NOTE H--EMPLOYEE PENSION PLANS

The Menominee County Road Commission has two pension plans: the American Express Financial Simplified Employee Pension Plan for its full-time union employees, and the Michigan Employees' Retirement System for its full-time nonunion employees.

Union Employees' Plan--Profit Sharing Plan

All union employees were covered under a defined contribution pension plan with the American Express Financial Simplified Employee Pension Plan (effective January 1, 2000). The plan administrator is the Road Commission, who has established a trust fund administered by American Express Financial Advisors, Inc. During the fiscal year ended September 30, 2004, the Menominee County Road Commission's required and actual contributions amounted to \$121,356. Pension Fund contributions are based on a fixed weekly rate for each employee covered by the collective bargaining agreement. The Road Commission's weekly contribution for each union employee was \$60. There were 40 union employees covered under this plan during 2004. The most recent period for which the value of the plan assets were available was for the fiscal year ended September 30, 2004.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H-EMPLOYEE PENSION PLANS (Continued)

Nonunion Employees Plan--Description of Plan and Plan Assets

The Menominee County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% time the final average compensation (FAC) for all general employees and 2.5% of the FAC for the manager and supervisors. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 18.19% for general employees and 21.80% for the manager for the calendar year ending December 31, 2004.

Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions totaling \$116,273 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8%, annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases and the assumption that benefits will increase 2.5% per year (annually) after retirement.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H-EMPLOYEE PENSION PLANS (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 94,937	100%	\$0
2002	107,998	100%	0
2003	116,273	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 1,708,537	\$ 2,611,542	\$ 903,005	65%	\$551,559	164%
12/31/03	1,855,858	2,773,670	917,812	67%	557,716	165%
12/31/04	1,999,441	3,095,555	1,096,114	65%	602,077	182%

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

County road commissions in the State of Michigan established and created a trust fund known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Menominee County Road Commission became a member of the pool on March 1, 1986.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

MENOMINEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal Grants received and expended by the Road Commission was \$845,958 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ended September 30, 2005, the Road Commission received and expended Federal grants in the amount of \$173,669 for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed during the fiscal year ended September 30, 2005.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The \$35,450 difference between the State trunkline maintenance revenues of \$582,275 and expenditures of \$546,825 is due to the Michigan Department of Transportation (MDOT) trunkline maintenance audit report #2003-065 which resulted in a refund to the Road Commission. The refund was appropriately recorded to the state trunkline maintenance revenues.

**MENOMINEE COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2005**

EXHIBIT I

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits			\$ 6,575	\$ 6,575
Federal Grants				
Contracted				
Critical Bridges		\$ 3,199	3,199	-
Surface Transportation Program	\$ 382,400	746,181	615,344	(130,837)
Economic Development D Funds	98,000	102,678	113,975	11,297
Negotiated				
Economic Development D Funds		-	77,750	77,750
Bureau of Indian Affairs	40,000	190,919	95,919	(95,000)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,189,650	2,133,375	2,135,026	1,651
Local Road	1,394,300	1,294,010	1,284,440	(9,570)
Urban Primary	78,330	62,950	61,354	(1,596)
Urban Local	5,970	6,995	8,337	1,342
Snow Removal	2,490	2,585	2,587	2
Critical Bridge	-	600	600	-
Economic Development Fund				
Rural Primary (D)	-	32,852	36,618	3,766
Forest Road	161,015	161,015	161,017	2
Federal Exchange	388,690	452,282	452,282	-
Contributions--Local Units				
Townships	346,000	553,400	269,880	(283,520)
Other Governmental		-	9,224	9,224
Charges for Services				
State Trunkline Maintenance	500,000	655,450	582,275	(73,175)
State Trunkline Non-Maintenance	25,000	148,500	151,196	2,696
Private Driveway Plowing	10,000	28,690	1,040	(27,650)
Salvage Sales			2,014	2,014
Interest and Rents				
Interest Earned	25,000	25,000	41,570	16,570
Other Revenue				
Contributions From Other Sources		97,000	97,000	-
Gain on Equipment Disposals	156,850	157,140	156,825	(315)
Total Revenues	5,813,695	6,864,821	<u>\$ 6,376,047</u>	<u>\$ (488,774)</u>
Fund Balance--October 1, 2004	-	897,649		
Total Budget	<u>\$ 5,813,695</u>	<u>\$ 7,762,470</u>		

The Notes to Financial Statements are an integral part of this statement.

MENOMINEE COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2005

EXHIBIT J

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,190,000	\$ 2,248,000	\$ 1,824,067	\$ 423,933
Maintenance	1,425,000	1,422,000	1,188,431	233,569
Local Road				
Preservation/Structural Improvements	770,000	1,165,994	811,495	354,499
Maintenance	1,225,000	1,297,000	1,108,778	188,222
Primary Road Structure				
Preservation/Structural Improvements	25,000	12,300	11,778	522
Maintenance	15,000	7,000	6,786	214
Local Road Structure				
Preservation/Structural Improvements	50,000	110,706	109,593	1,113
Maintenance	10,000	13,500	12,672	828
State Trunkline				
Maintenance	500,000	617,000	546,825	70,175
Non-Maintenance	25,000	151,500	151,196	304
Driveway Plowing	5,000	2,000	1,041	959
Maintenance for Other Units		51,000	49,995	1,005
Equipment Expense--Net	275,000	355,000		
Direct			\$ 1,082,408	
Indirect			423,866	
Operating			274,931	
Less: Equipment Rentals			<u>(1,647,520)</u>	221,315
Administrative Expense--Net				
Administrative Expense	407,500	399,700	337,578	62,122
Capital Outlay--Net	(149,150)	(130,230)		
Capital Outlay			548,382	
Less: Depreciation Credits			(498,490)	
Equipment Retirements			<u>(182,856)</u>	2,734
Debt Service				
Principal	345	-	-	-
Contingencies	<u>40,000</u>	<u>40,000</u>		40,000
Total Expenditures	5,813,695	7,762,470	<u>\$ 6,160,956</u>	<u>\$ 1,601,514</u>
Fund Balance--September 30, 2005	<u>-</u>	<u>-</u>		
Total Budget	<u>\$ 5,813,695</u>	<u>\$ 7,762,470</u>		

The Notes to Financial Statements are an integral part of this statement.

MENOMINEE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$3,275,827	\$1,613,725	\$1,486,495	\$ 6,376,047
Total Expenditures	3,282,187	2,234,228	644,541	6,160,956
Excess of Revenues Over (Under) Expenditures	(6,360)	(620,503)	841,954	215,091
Other Financing Sources Interfund Adjustment		620,503	(620,503)	-
Total Other Financing Sources	-	620,503	(620,503)	-
Excess of Revenues and Other Sources Over (Under) Expenditures	(6,360)	-	221,451	215,091
Fund Balance--October 1, 2004	248,609		2,160,528	2,409,137
Fund Balance--September 30, 2005	\$ 242,249	\$ -	\$2,381,979	\$ 2,624,228

MENOMINEE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended September 30, 2005

EXHIBIT L

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$ 6,575	\$ 6,575
Federal Grants				
Contracted				
Critical Bridges	\$ 2,956	\$ 243		3,199
Surface Transportation Program	615,344			615,344
Economic Development D Funds	113,975			113,975
Negotiated				
Surface Transportation Program	77,750			77,750
Bureau of Indian Affairs		95,919		95,919
State Grants				
Michigan Transportation Fund				
Engineering	6,240	3,760		10,000
Allocation	2,135,026	1,284,440		3,419,466
Urban	61,354	8,337		69,691
Snow Removal	2,587			2,587
Critical Bridge Funds	554	46		600
Economic Development Fund				
Rural Primary (D)	36,618			36,618
Forest Road (E)	161,017			161,017
Federal Exchange			452,282	452,282
Contributions From Local Units				
Townships	48,900	220,980		269,880
Other Governmental Contributions	9,224	-		9,224
Charges for Services				
State Trunkline Maintenance			582,275	582,275
State Trunkline Non-Maintenance			151,196	151,196
Private Driveway Fees			1,040	1,040
Salvage Sales			2,014	2,014
Interest and Rents				
Interest Earned	4,282		37,288	41,570
Other Revenue				
Contributions From Other Sources			97,000	97,000
Gain on Equipment Disposal			156,825	156,825
Total Revenues	\$ 3,275,827	\$ 1,613,725	\$ 1,486,495	\$ 6,376,047

MENOMINEE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2005

EXHIBIT M

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,824,067			\$ 1,824,067
Maintenance	1,188,431			1,188,431
Local Road				
Preservation/Structural Improvements		\$ 811,495		811,495
Maintenance		1,108,778		1,108,778
Primary Road Structures				
Preservation/Structural Improvements	11,778			11,778
Maintenance	6,786			6,786
Local Road Structures				
Preservation/Structural Improvements		109,593		109,593
Maintenance		12,672		12,672
State Trunkline				
Maintenance			\$ 546,825	546,825
Non-Maintenance			151,196	151,196
Driveway Plowing			1,041	1,041
Maintenance for Other Units			49,995	49,995
Equipment Expense--Net (Per Exhibit J)	49,450	55,787	28,448	133,685
Administrative Expense--Net (Per Exhibit J)	201,675	135,903		337,578
Capital Outlay--Net (Per Exhibit J)			(132,964)	(132,964)
Total Expenditures	\$ 3,282,187	\$ 2,234,228	\$ 644,541	\$ 6,160,956



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

January 11, 2006

Board of County Road Commissioners
Menominee County
P.O. Box 527
Stephenson, Michigan 49887

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Menominee County Road Commission, a component unit of Menominee County, as of and for the year ended September 30, 2005 and have issued our report thereon dated January 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Menominee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Menominee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division